



2018

CDBG Subrecipient Grant Administration Manual

CDBG Policies and Procedures Guidelines



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Introduction

This manual sets forth policies and procedures for the administration of programs funded by the City Community Development Block Grant (CDBG) program. Although some portions of these procedures are complicated and involve complex Federal regulations and policies; this manual summarizes the essential elements for proper program operation.

No handbook can address every type of administrative/accounting problem or situation that may arise during the course of the contract year; therefore, the City's Community Development staff is available to respond to requests for clarification or additional information.

In the event that new procedures or policies are implemented during the contract period, Community Development staff will provide timely notification and technical assistance.

This manual is neither intended to be all-inclusive nor so restrictive that it cannot be amended.

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I. COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG) PROGRAM START-UP AND COMPLETION

A. BACKGROUND

The Community Development Block Grant (CDBG) is funded and regulated at the federal level by the U.S. Department of Housing and Urban Development (HUD) and administered locally by the City of Columbia, under the auspices of the Community Development Department. The CDBG Program is authorized under Title I of the Housing and Community Development Act of 1974. The regulations implementing the CDBG Program are located in the 24 CFR, Part 570.

The City's objectives for this program are in accordance with HUD's National Objectives which seeks the development of a viable urban community through the implementation of the following goals, principally for the benefit of low-and moderate-income (LMI) persons:

Providing decent housing means helping homeless persons obtain appropriate housing and assisting those at risk of homelessness; preserving the affordable housing stock; increasing availability of permanent housing that is affordable to low- and moderate income persons without discrimination; and increasing the supply of supportive housing.

Providing a suitable living environment entails improving the safety and livability of neighborhoods; increasing access to quality facilities and services; and reducing the isolation of income groups within an area through de-concentration of low-income housing opportunities.

Expanding economic opportunities involves creating jobs that are accessible to low and moderate-income persons; making mortgage financing available for low- and moderate-income persons at reasonable rates; providing access to credit for development activities that promote long-term economic and social viability of the community; and empowering low-income persons to achieve self-sufficiency to reduce generational poverty in federally-assisted and public housing.

The City of Columbia establishes a Notice of Funds Available (NOFA) process annually and invites applications from qualified entities to apply for funding under a Request for Applications (RFA). The primary objective is to fund projects and activities that are consistent with locally developed CDBG Program Priorities and to address the federal/local Consolidated Plan objectives.

If an agency is unable to promptly implement the program, these lower income persons are not receiving the intended benefits. Agencies, which receive a CDBG grant, must be able to implement their program soon after the award. The City developed the standard to keep

programs on track and to ensure that the specified activity is being carried out in a timely manner.

Please be aware that an Agency's performance history on past and present City of Columbia funded programs and also the agency's adherence to the Program Start-up and Completion Standard is provided to the Citizens Advisory Committee (CAC) when they review and consider proposals for future funding recommendations.

The City, as approved by HUD, provides CDBG funds for **Public Service (Including Neighborhood Improvement Grants) or Non-Public Service (Infrastructure, Acquisition, Demolition, Economic Development, etc.)**.

Public Services: Our Public Service Partners and Subrecipients use these funds to provide services to low and moderate-income clients. HUD regulations place a 15% cap on the amount an entitlement agency may allocate towards Public Service programs. This means the City, as an entitlement agency, can only allocate that portion each year towards public services. All public services must be provided to low or moderate-income residents within the City of Columbia.

This manual will explain many of the procedures and policies relating to the CDBG program.

POLICY

Prior to contract execution, all Subrecipients must have the needed support, confirmed matching resources, sufficiently developed plans, a program site, and budget to start the proposed program after the funding approval and complete the program within one year after start up. Programs should be able to begin on July 1st; the beginning of the City's Fiscal Year. Funds are not always available on July 1st; however, the City may reimburse your agency for the funds expended after July 1st. Funds must be spent in a timely manner.

Subrecipients are expected to spend at least 15% of the funds by September 30th, 50% by December 31st and 75 % by March 31st, unless an alternate spending timeline has been approved. Unspent funds are subject to de-obligation and potential reprogramming to other eligible programs as approved by the Citizens Advisory Committee (CAC).

The Subrecipient agrees to comply with the requirements, policies, regulations and criteria as specified in the CDBG Subrecipient Grant Administration Manual concerning CDBG Programs, a copy of which the Subrecipients and acknowledges possession thereof. Subrecipient shall obtain the necessary federal, state and local permits and licenses required to execute the Program. The Subrecipient further agrees to comply with all applicable federal, state and local codes, regulations, statutes, ordinances and laws. Failure to comply with any of the above may result in forfeiture of the CDBG Funding provided to Subrecipient under the Agreement.

B. METHODS TO IMPROVE TIMELY IMPLEMENTATION AND USE OF FUNDS

Study the Subrecipient Grant Administration Manual and become familiar with the

Pre-Contracting requirements. Submit documents (if required) to the Community Development Administration and/or Compliance Specialist no more than 15 days after the Orientation Session.

A follow-up one-on-one Technical Assistance to specific topics that relate to your particular program will be scheduled prior to submittal of your first reimbursement request. Other key staff from your organization may attend.

Failure to request reimbursement from the City for eligible CDBG activities can become a serious problem. Agencies will be expected to submit separate monthly reimbursement requests and monthly/quarterly activity reports via the online ZoomGrants program. Do not save up several months of payment requests and submit them in bulk. This may cause unnecessary delays in your reimbursement.

If the Agency experiences key staff changes, such as a new Executive Director, other key program or financial staff, you must contact the Community Development office in writing, informing the City of the change.

The assigned City of Columbia CDBG program compliance specialists are important members of the team. They are available to explain the CDBG program processes, help the program get started and assist the agency to stay on track. Please contact your assigned Community Development program compliance specialist if you have any questions or need assistance.

C. SUBRECIPIENTS

In order to achieve the national objectives, the City allocates CDBG funds on an application basis each year. A **Subrecipient** is a public or private nonprofit agency, authority, or organization, which receives CDBG funds from the City to undertake eligible activities.

Unless otherwise noted, the term “Subrecipient” or “Agency” will be used throughout this manual to denote all entities receiving CDBG funds.

Prior to the release of CDBG funds from the City, a written agreement must be executed with the Subrecipient. The agreement remains in effect during any period that the Subrecipient is operating or implementing a program in which CDBG funds are being invested.

PRE-CONTRACT PROCEDURES Summary of Procedures and Responsibilities

General Information: Any Timeframes Mentioned are Approximate	Responsible Party
Release of Funds - The U.S. Department of Housing and Urban Development approves the City's program application and releases the funds for use to the City.	HUD/City
Community Development Entitlement Administration and Compliance (CDEAC) – Each program will have an assigned Program Compliance Specialist to work with the agency. The assigned program compliance specialist will provide ongoing technical assistance needed to support the program and to ensure timely contracting, and successful program implementation.	City
Orientation and Technical Assistance Session – A <u>mandatory</u> orientation is held after City Council approves recommended allocations of awards, but before the City's Annual Action Plan is approved by HUD. The orientation serves to educate Subrecipient agencies about the basic rules under which all CDBG activities must operate. It provides an opportunity to establish clear expectations with respect to performance standards, policies, and procedures. The agency will find out how and when to start the program.	City/Agency
Environmental Clearance Required – No funds related to the project or activity can be obligated or expended until an Environmental Clearance Authorization is completed and the contract is executed. Any expenditures for a program that takes place before the execution of a contract and the completion of the Environmental Clearance cannot be reimbursed. The City is responsible for providing the Subrecipient the HUD required Environmental Clearance Authorization.	City/Agency
Site Visit – A site visit will be conducted to review the agency's fiscal, management and operational procedures, its compliance with ADA and CDBG requirements, and to survey the program or services offered.	City
Agreement – The agreement is the central part of the Subrecipient compliance with the CDBG program. It fulfills a legal requirement by presenting a concise statement of rules of the CDBG program, the conditions under which funds are provided and delineates fiscal and program performance.	City/Agency
Procurement Requirements – If you plan to purchase materials, agency products, or services under the CDBG program, the agency must follow a free and open competitive process in securing products or services. Agencies must properly document the purchase activity and decisions. All procurement undertakings must make an effort to outreach/utilize Minority Business Enterprises (MBE) and Women Business Enterprises (WBE) firms. Documentation must be maintained to verify the outreach efforts.	Agency
Audit Required – An audit for the agency's most recent audited year must be provided, if available, including any management letters and any responses the agency has made to the audit. If an agency does not qualify for an audit, a reviewed Financial Statement signed by the President of the Board, and the Treasurer will be required.	Agency

II. COMMUNITY DEVELOPMENT BLOCK GRANT OBJECTIVES

The primary emphasis of the CDBG grant program is to ensure that each activity meets and complies with one of HUD's three broad national objectives which are:

1. Benefit to low-and moderate-income households and/or persons
2. Prevention and/or elimination of slum and blight
3. Addressing an urgent need

A. BENEFIT TO LOW-AND MODERATE-INCOME HOUSEHOLDS AND/OR INDIVIDUALS (LMI)

This national objective stipulates that Subrecipients clients who benefit from CDBG funds must have low and moderate incomes as defined by HUD (**Exhibit A**). In order to meet this benefit test, each Subrecipient must adhere to the following:

1. Every Subrecipient must serve persons of low and moderate income. Low- moderate income is defined as a household that does not exceed 80 percent of HUD Income Limits. HUD updates these limits on an annual basis. It is the responsibility of the Subrecipient to adhere to all new guidelines from the date they receive them. To receive the most up to date income guidelines, go to www.hud.gov.

Regardless of other income limits, requirements, guidelines and regulations that may govern a Subrecipient's activities, for the purpose of the City of Columbia' CDBG program, all Subrecipients must ensure that the income of the clients they serve does not exceed HUD's Annual Income Limits.

B. LOW-AND MODERATE-INCOME LIMITED CLIENTELE ACTIVITY CRITERIA (LMC)

A limited clientele activity is an activity that benefits a specific group of people, rather than all the residents in a particular area. The limited clientele activities addressed in this section are intended to benefit at least 51% low-and moderate-income individuals. However, housing activities and activities designed to create or retain jobs may not qualify under this category.

To qualify under this category, the activity must either:

- a. Benefit a clientele who are generally presumed to be principally low- and moderate-income (L/M) individuals. The following groups are currently presumed by HUD to meet this criterion: abused children, battered spouses, elderly, disabled, homeless persons, illiterate individuals, and migrant farm workers;
- b. Require information on family size and income so that it is evident that at least 51% of the clientele are individuals whose family income does not exceed the L/M limit;
- c. Have income eligibility requirements that limit the activity exclusively to low- and moderate-income individuals; or
- d. Be of such nature and location that it is obvious the clientele benefiting from the activity will be low-and moderate-income individuals.

The CDBG subsidized services must be limited to individuals with low and moderate income, or who are considered presumed eligible such as: battered spouses, abused children, elderly, disabled, homeless, or illiterate individuals, and migrant farm workers. This means that only families or individuals who qualify by income may receive CDBG subsidized services. Agencies may offer a sliding scale fee to the general population. The same principal would apply to a childcare center or any other fee based service. A clinic providing CDBG subsidized health services that are available to all individuals in a neighborhood would not qualify as a limited clientele activity.

Example of Limited Clientele Services

The CDBG subsidized services must be limited to individuals with low and moderate income, or who are considered presumed eligible such as: battered spouses, abused children, elderly, disabled, homeless, or illiterate individuals, and migrant farm workers. This means that only families or individuals who qualify by income may receive CDBG subsidized services. Agencies may offer a sliding scale fee to the general population. The same principal would apply to a childcare center or any other fee based service. A clinic providing CDBG subsidized health services that are available to all individuals in a neighborhood would not qualify as a limited clientele activity.

C. LOW TO MODERATE AREA BENEFIT (LMA)

The area benefit category is the most commonly used national objective for activities that benefit a residential neighborhood. An area benefit activity is one that benefits all residents in a particular area, where at least 51 percent of the residents are LMI persons.

Examples of area benefit activities may include the following when they are located in a predominately LMI neighborhood:

- Acquisition of land to be used as a neighborhood park;
- Construction of a health clinic;
- Improvements to public infrastructure like the installation of gutters and sidewalks; and
- Development of a community center.

The activities listed above benefit all LMI residents in a service area and thus are the type of activities that may qualify under the LMI area benefit category for the purposes of meeting a national objective.

Grantees are responsible for determining the service area of an activity. HUD will generally accept a grantee's determination as long as it complies with CDBG regulations.

- The factors that should be considered in making a determination regarding the service area include:
 - *The nature of the activity:*
In general, the size and the equipment associated with the activity should be taken into consideration. A small park with a limited number of slides and benches would not be expected to serve a large neighborhood. In the same way,

a larger park that can accommodate a considerable number of people would not be expected to serve just the immediately adjacent properties.

- *The location of the activity:*

In general, the immediate area surrounding a facility or improvement is expected to be included in the service area. Additionally, when a facility is located near the boundary of a particular neighborhood, its service area could likely include portions of the adjacent neighborhood as well as the one in which it is located.

- *Accessibility issues:*

Geographic barriers can separate and preclude persons residing in a nearby area from taking advantage of a facility or improvement. Other limits to accessibility can include access fees, language barriers, time or duration that an activity is available, access to transportation and parking, etc.

- *The availability of comparable activities:*

Comparable activities within the service area should be taken into account so that the service area does not overlap with the service area of another comparable activity.

- *Boundaries for facilities and public services:*

The service area for some public facilities and services are determined based on specified and established boundaries or districts. Examples of such services and facilities are police precincts, fire stations, and schools.

An area is considered to meet the test of being LMI if there is a sufficiently large percentage (51 percent) of LMI persons residing in the service area as determined by the most recently available decennial Census/American Community Survey (ACS) information, together with the CDBG income limits that would have applied at the time the income information was collected by the Census Bureau. Grantees should obtain the following census data:

- A listing of all census tracts and block groups in the community's jurisdiction;
- The number of persons that resided in each such tract/block group at the time of the last census; and
- The percentage of such persons who were LMI (based on the CDBG definition) at that time.

If the proposed activity's service area is generally the same as a census tract or block group, then the Census data may be used to justify the income characteristics of the area served.

Finally, the service area of the activity must be primarily residential and the activity must meet the identified needs of LMI persons. This requirement does not apply to the location of the activity itself but rather the service area of the activity. As such it does not mean that activities located in commercial districts cannot be qualified under the LMI area benefit category on the virtue of their geography.

The primarily residential test is applied to the service area of the activity.

For example, activities that support the infrastructure of a commercial district composed of institutions and firms that serve a national and international clientele will not qualify under LMI area benefit.

In contrast, if the commercial district is composed of stores and businesses that serve local customers such that the service area boundaries of the commercial district is around a primarily residential area with the requisite percentage of LMI residents, the activity qualifies under the LMI area benefit category.

There are activities and facilities that are located in a service area but are designed to meet special needs. These activities cannot be qualified under this category. For example, a senior center would qualify under the LMI limited clientele category and not the LMI area benefit category.

Finally, there are two special situations that can meet the national objective of benefiting LMI persons under either the area benefit category or the job creation or retention category, at the option of the grantee.

1. Activities undertaken pursuant to a HUD approved Neighborhood Revitalization Strategy Area (NRSA) for the purpose of creating or retaining jobs, and
2. Activities carried out for the purpose of creating or retaining jobs by a Community Development Financial Institution (CDFI) whose charter limits its investment area to a primarily residential area consisting of at least 51 percent LMI persons.

D. PREVENTION AND/OR ELIMINATION OF SLUM AND BLIGHT

The focus of activities under this national objective is a change in the physical environment of a deteriorating area. This contrasts with the LMI benefit national objective where the goal is to ensure that funded activities benefit LMI persons.

This difference in focus has an impact on the information that is required to assess the qualifications of an activity. Under the LMI benefit national objective, determining the number of LMI persons that actually or could potentially benefit from an activity is central to qualifying the activity. Under the elimination of slums and blight national objective, determining the extent of and physical conditions that contribute to blight is central to qualifying an activity.

There are three categories that can be used to qualify activities under this national objective:

- Prevent or eliminate slums and blight on an area basis;
- Prevent or eliminate slum and blight on a spot basis; or
- Be in an urban renewal area.

E. ADDRESSING OTHER COMMUNITY DEVELOPMENT NEEDS HAVING A PARTICULAR URGENCY

Use of the urgent need national objective category is rare. It is designed only for activities that alleviate emergency conditions. Examples include:

- Acquisition of property located in a flood plain that was severely damaged by a recent flood;
- Public facility improvements like the reconstruction of a publicly-owned hospital that was severely damaged by a tornado;
- Demolition of structures that are severely damaged by a major earthquake;
- Public services like additional police protection to prevent looting in an area damaged by a recent hurricane;
- Interim assistance such as emergency treatment of health problems caused by a flood; and
- Special economic development assistance to a grocery store that was damaged by an earthquake.
- Urgent need qualified activities must meet the following criteria:
 - The existing conditions must pose a serious and immediate threat to the health or welfare of the community;
 - The existing conditions are of recent origin or recently became urgent (generally, within the past 18 months);
 - The grantee is unable to finance the activity on its own; and
 - Other sources of funding are **not** available.

III. ADMINISTRATIVE PROVISIONS

A. WRITTEN AGREEMENT WITH CITY

A written agreement must be entered into between the City and all entities receiving CDBG funds. The written agreement forms the basis for the contractual obligation between the parties to fund and implement the activity or program. The agreement will denote responsibilities attributable to each party, and shall outline in exact measure the scope of services to be provided, methods of accountability, and a schedule for payment. Execution of the agreement binds the Subrecipient for a specified period of time, and may be revised only upon written authorization from the City. Compliance with the stipulations in this Subrecipient Grant Administration Manual is a requirement of the written agreement.

B. POST-AWARD RESPONSIBILITIES

Upon execution of the agreement between the City and the Subrecipient, the Subrecipient shall:

1. Immediately report all changes in its articles of incorporation, bylaws, or tax-exempt status to the City.
2. Ensure no member of the Board of Directors is a paid employee, agent or subcontractor.
3. Continue to include representation on the Board of Directors, the broadest possible cross-section of the community, including those with expertise and interest in the

provided services, representatives from community organizations interested in the services, and users of the services.

4. Ensure all meetings of the Board of Directors are open to the public, except meetings, or portions thereof, dealing with personnel or litigation matters.

Keep minutes of all regular and special meetings of the Board of Directors, have a regular meeting at least once a year, and upon request, forward copies to the program compliance specialist assigned to your activity.

C. RECORDS TO BE MAINTAINED

Recipients are required to keep records associated with grant transactions for five years after the final financial status report submitted for that grant. Subrecipients may be required to retain records longer than the specified time period if the records relate to audit resolution, audit appeal, or other action initiated prior to the end of the record retention period, but extending beyond that period. For each activity, the following three (3) types of documentation must be kept.

1. Records showing the activity is used by a segment of the population presumed by HUD to be low/mod individuals, e.g., disabled persons, persons with HIV/AIDS, homeless; or
2. Records describing how the nature and, if applicable, the location of the activity establishes that it is used predominantly by low-and moderate-income individuals. (Census tract data); or
3. Data showing the size and annual income of the immediate family of each individual receiving the benefit, if not in the applicable low-income census tracts.

D. FEDERAL REQUIREMENTS

Subrecipients and subcontractors must comply with all applicable federal regulations governing the use of CDBG funds in addition to 2 CFR Part 200 **Appendix I**. These regulations include but may not be limited to those identified on the “Conditions of Federal Funding” **Exhibit B** as well as HUD Regulations 24 CFR Part 570, CDBG Regulations **Appendix II**.

A. ENVIRONMENTAL REVIEW

Subrecipients for all non-public service activities are responsible for completing, submitting and receiving approval authority (from the City) of Environmental Review prior to obligating or expending funds (from any source) associated with the activity.

In accordance with 24 CFR Part 58, recipients, owners, developers, sponsors or any third-party partners cannot undertake any physical actions on a site, commit, expend, or enter into any legally binding agreements that constitute choice-limiting actions for any HUD or non-HUD funds before the environmental review process has been completed and the City has received a Release of Funds from HUD, if required. Choice-limiting actions are defined by HUD as expenditure of funds or entrance into a legally binding agreement for property acquisition, demolition, movement, rehabilitation, conversion, repair or construction. Please contact the Community Development Division before undertaking any of the above

actions to determine procedure to receive clearance. Undertaking a choice-limiting action (as defined above) prior to receiving environmental clearance will result in the automatic de-obligation of the CDBG/HOME/HOPWA award.

An environmental review is the process of reviewing a project and its potential environmental impacts to determine whether it complies with the National Environmental Policy Act (NEPA) and related laws and authorities. All HUD-assisted projects are required to undergo an environmental review to evaluate environmental impacts. The analysis includes both how the project can affect the environment and how the environment can affect the project, site, and end users.

An environmental review must be performed before any funds, regardless of source, are committed to a project.

Documentation of the environmental review should be maintained in the environmental review record. This record contains the description of all activities that are part of the project and an evaluation of the effects of the project on the human environment and vice versa. This record should be made available for public review.

B. INSURANCE

Subrecipients shall obtain and maintain the minimum insurance coverage outlined in “Insurance Requirements” attached hereto as **Exhibit C**.

IV. SUBRECIPIENT RESPONSIBILITIES (From Playing by the Rules A Handbook)*

When agencies begin providing services and requesting reimbursement, some may not have the financial systems in place to meet Federal requirements. Below is a summary of the required elements of financial systems for managing Federal funds. Please review the following questions to find out if there are certain areas that the agency may need help with. Below are questions Subrecipients should ask themselves from the Playing by the Rules: A Handbook from HUD.

1. Internal Controls: Does the agency have a written set of policies and procedures that define staff qualifications and duties, lines of authority, separation of functions, and access to assets and sensitive documents? Does the agency have written accounting procedures for approving and recording transactions? Are financial records periodically compared to actual assets and liabilities to check for completeness and accuracy?

2. Accounting Records: Does the agency maintain an adequate financial accounting system, the basic elements of which should include: (a) a chart of accounts; (b) a general ledger; (c) cash receipts journal; (d) cash disbursements journal; (e) a payroll journal; and (f) payable and receivable ledgers. Does the accounting system provide reliable, complete and up to date information about sources and uses of all funds? Are “trial balances” performed on a regular basis (at least quarterly)?

3. Allowable Costs: Does the agency have a clearly defined set of standards and procedures for determining the reasonableness, allowability and allocability of costs incurred that is consistent with the basic Federal rules (2 CFR Part 200)? Does the agency know which specific types of expenditures are prohibited under the CDBG program (24 CFR Part 570)? If approved for indirect costs, does your agency have a HUD approved indirect cost allocation plan?

4. Source Documentation: Does the agency maintain up to date files of original source documentation (receipts, invoices, cancelled checks, etc.) for all financial transactions, including those involving obligations incurred and the use of program income?

5. Budget Controls & Cash Management: Does the agency maintain an up to date (approved) budget for all funded activities, and perform a comparison of that budget with actual expenditures for each budget category? Does the agency regularly compare progress toward the achievement of goals with the rate of expenditure of program funds? Does the agency have a regular procedure for accurately projecting the cash needs of the organization, and for minimizing the time between the receipt of funds from the grantee and their actual disbursement? Can the agency ensure that all program income is used for permitted activities, and that such program income is used before further drawdowns are made from the grantee for the same activity?

6. Financial Reporting: Is the agency able to provide accurate, current, and complete disclosure of the financial results of each Federally-sponsored project or program in accordance with the reporting requirements of the grantee and HUD?

7. Audits: When was the last audit conducted of the agency by either a Certified Public Accountant or a qualified accountant and what were the results? Does the agency have a copy of the management letter? Is the agency aware of the different types of audits, and is the CPA capable of conducting and completing an OMB A-133 (Single) audit if the agency qualifies for one? Has the agency completed the annual IRS form 990 report and submitted it on time? All agencies with \$50,000 and more in annual income per year must follow this IRS rule. A 2 CFR Part 200 audit is required if your organization expends more than \$750,000 in federal funds during your fiscal year.

If the answer is “yes” to all of these questions, then the agency has established a commendable degree of control over its financial affairs. If not, then the agency must develop policies and procedures to allow for the above. The requirements for financial management systems and reporting are found in 2 CFR Part 200. The purpose of these requirements is to ensure that a Subrecipient receiving federal funds has a financial management system sufficient to:

- Provide effective control over and accountability for all funds, property, and other assets;
- Identify the source and application of funds for federally-sponsored activities, including verification of the “reasonableness, allowability, and allocability” of costs, and verification that the funds have not been used in violation of any of the restrictions or prohibitions that apply to this federal assistance;
- Permit the accurate, complete and timely disclosure of financial results, in accordance

with the reporting requirements of the grantee or HUD.

The federal regulations provide specific requirements regarding the areas listed in the first part of this section, namely: internal controls, accounting records, allowable costs, source documentation, budget controls & cash management, financial reporting, and audits.

Following are a few of the financial terms used in this section:

Accrued – term used to show expenses incurred in a prior fiscal year that are paid in the current fiscal year, but are charged back to the year in which the expenditures pertained. For example, a Non-profit spends CDBG funds in June, the end of the fiscal year but does not bill the city until July, the first period of the new fiscal year, those funds may be charged back to the prior period, June.

Allowability – term indicating whether an expense is eligible for the program and/or funding source.

Allocability – cost may be charged to a federal award if it is a specific benefit to the program.

Budget – A plan of action expressed in financial terms.

Expenditures – term used to describe funds spent.

Obligations – funds set aside for specific purposes and/or items.

Outlay – funds used by the agency to pay for goods and services prior to being reimbursed.

Program Income – funds earned by the agency in a CDBG funded program or facility. Typically, these funds are in the form of fees for services.

Resources – funds used by the agency.

1. INTERNAL CONTROLS

A good internal control system should include several basic features, regardless of the organization's size. The characteristics include:

- An organization plan that safeguards resources by segregating duties;
- A system of authorization and recording procedures that provides effective accounting control over assets, liabilities, revenues, and expenses;
- An established system of procedures followed by each organizational component in performing its duties and functions;
- Personnel capable of performing their responsibilities; and
- An effective system of internal reviews.

Internal controls can help provide assurance that operations comply with federal requirements. For example, responses to question such as those below can affect the outcome of an audit:

- Are there payroll records to support charges to federal funds and do they meet the requirements laid out in the applicable cost principals?
- Are there procedures to verify that charges are allowable under grant provisions?
- Are there adequate procedures to verify that program participants are eligible?

- Are corrective actions recommended and implemented as a result of self-monitoring activities?

The soundness of any organization's financial management structure is determined by its system of internal controls. Internal controls consist of a combination of procedures, specified job responsibilities, qualified personnel, and records which together create accountability in an organization's financial system and safeguard its cash, property, and other assets. Through its system of internal controls, an agency's management can ensure that:

- Resources are used for authorized purposes and in a manner consistent with applicable laws, regulations, and policies;
- These resources are protected against fraud/abuse, mismanagement or loss;
- Reliable information on the source, amount and use of resources are secured, maintained up to date and disclosed in appropriate records and reports.

Accordingly, some of the basic elements that a Subrecipient should consider in developing a system of control include:

- An organizational chart that indicates the actual lines of responsibility of individuals involved in approving or recording financial transactions.
- Written definition of the duties of key employees.

A formal system of authorization and supervision sufficient to provide accounting control over assets, liabilities, receipts, and expenditure.

This should include:

- Maintenance of a policy manual specifying approval authority for financial transactions and guidelines for controlling expenditures; and,
- Written procedures for the recording of transactions, as well as an accounting manual. The system of authorization should provide a way for management to ensure supervisory approval of transactions, and documentation of these transactions for accounting purposes. A system of authorizations can be general – as in a procedures manual which explains how accounting functions are to be performed – or very specific, as in identifying who has the authority to sign a contract on behalf of the organization or who has permission to sell a piece of equipment. **It is highly recommended that the agency adopt a two party signature process for agency checks and expenditures.**
- Adequate separation of duties so no one individual has authority over an entire financial transaction. Separation of duties specifically involves the separation of three types of functional responsibilities: (a) authorization to execute a transaction, (b) recording of the transaction, and (c) custody of the assets involved in the transaction. It is often beneficial to have different individuals, or even different departments handle the various steps in the processing of transactions. First, separation of functional responsibility results in cross-checking by the individuals involved, increasing the likelihood that innocent or clerical errors will be discovered and corrected. Second, fraud is more difficult to carry out if it would require the collusion of two or more people.

- In organizations with very limited staff, however, it may be difficult to achieve optimal separation of duties. In such instances, the most critical functional areas are separation between custody for cash, record-keeping for cash, and control of assets easily converted to cash.
- Hiring policies to ensure that staff qualifications are commensurate with job responsibilities.
- Control over access to assets, blank forms, and confidential documents. Physical access to records, blank forms, cash and other assets should be limited to authorized personnel only. For example, access to accounting records should be limited to only those individuals having record keeping or supervisory responsibility for them.
- Agencies should perform periodic comparison of financial records to actual assets and liabilities (reconciliation), with corrective action taken in response to any discrepancies. As with separation of duties, this is a crucial exercise to uncover and correct inadvertent record-keeping errors in a timely manner. It is also essential for identifying potential weaknesses in an organization's system for safeguarding resources, as well as possible instances of fraud or misuse of assets.

2. ACCOUNTING RECORDS

A. Accounting System

Staff with accounting skills but not necessarily with a CDBG background may often handle the agency's financial functions. To ensure proper financial record keeping and reporting, agencies should help their financial staff understand:

- What information needs to be kept and why;
- When information should be collected and how often reported;
- How the information should be acquired, organized and stored;
- How the information should be reported (format) and how long the records must be kept.

Financial record keeping is one of the primary areas subject to HUD reviews and one which if inadequate can lead to serious problems. These are the financial information and records that must be maintained by the agency:

- Chart of accounts, written accounting procedures, internal controls, administrative controls, accounting journals and ledgers;
- Payment requests and source documentation (bills, receipts, copies or cancelled checks, etc.);
- Procurement files (bids, contracts, etc.) and real property inventory;
- Bank account and payroll records;
- Financial statements, correspondence and audit files.

Subrecipients are required to have accounting records that adequately identify the source and application of CDBG funds provided to them. To meet this requirement, a Subrecipient's accounting system should include the following elements:

- A chart of accounts. This is a list of names and the numbering system for the individual accounts that contains the basic information about particular classifications of

financial transactions for the organization. Accounts are created and, in turn, used to summarize the financial transaction data, according to some common characteristics. A typical chart of accounts might have, for example, separate account categories for describing assets (cash in a checking account, accounts receivable, pre-paid insurance, etc.); liabilities (loans, accounts payable, obligated funds, etc.) revenue (drawdowns from CDBG awards, cash contributions, proceeds from sales, other program income, etc.); and expenses (rent, wages, utilities, phones, etc.).

- A cash receipts journal. This journal documents (in chronological order) when funds were received, in what amounts, and from what sources. The journal is a record of transactions showing the charges to be recorded as a result of each transaction. Every transaction is initially recorded in a journal. Therefore, a journal is called a record or book of original entry. Each entry in the journal states the names of the individual accounts to be debited and credited, the dollar amount of each debit and credit, the date of the transaction, and any other necessary explanation of the transaction. Information for a journal entry can come from a variety of sources, such as checks issued, or received, invoices, cash register tapes, and time sheets.
- A cash disbursements journal. This journal documents the expenditures of the organization in chronological order (e.g., when the expense was incurred, how much was spent, to whom it was paid, and for what purpose).
- A payroll journal. This journal documents the organization's expenses on salaries and benefits, and distinguishes different categories for regulatory purposes.
- A general ledger. After a transaction is entered in a journal, that information also should be transferred to the proper accounts contained in the general ledger. The general ledger summarizes in chronological order the activity and financial status of all the accounts of an organization. The process of transferring transaction information from a journal to a ledger is known as "posting". The entries in the journal and ledger should be cross-indexed to permit the tracing of any recorded transaction (i.e., an "audit trail").

Periodically, a "trial balance" is performed, to test the mathematical accuracy of the ledger, and to prepare a statement of the financial position of an organization on a particular date.

B. Sources and Uses of Funds

For the CDBG program, these accounting records must contain reliable and up-to-date information about the sources and uses of funds, including:

- Federal grant awards received by the organization;
- Current authorizations and obligations of CDBG funds;
- Unobligated balances (funds remaining available for distribution);
- Assets and liabilities;
- Program income; and,
- Actual outlays or expenditures.

C. Maintenance of Records

The internal control requirements provide for the separation of duties and the secure storage of accounting records in limited access areas. In maintaining these accounting records a Subrecipient should also ensure that:

- Journal Entries are properly approved and explained/supported;
- Posting and trial balances are performed on a regular basis; and,
- Fidelity bond coverage is obtained for responsible officials of the organization.

D. General Federal Requirements - Financial Administration

To meet the cash management requirements a Subrecipient's financial management systems must provide for:

- A computer accounting system that records the source of income and categorizes expenses for grant activities. This system should contain income and expenses pertaining to federal grants.
- Effective control over all grant funds, property and equipment, and other assets. Subrecipients shall adequately safeguard all such assets and shall assure that they are used solely for authorized purposes.
- Comparison of actual checks written with budgeted amounts for each grant.
- Computer printouts that are supported by source documentation (i.e. original invoices marked "Paid" with dates and check number). A separate fund should be kept for all grant income and expenses.

E. Complying with Federal Requirements

Written procedures for determining what's reasonable and allowable under OMB circulars for costs and activities;

- a. Cash Management
- b. Eligibility of recipients
- c. Equipment and real property management
- d. Compliance with requirements regarding procurement, suspension and debarment
- e. Treatment of program income

F. Grants Accounting Records

For each program the agency should determine what data must be maintained in the program files and establish a system for ensuring that every file contains the necessary information. This list will vary from program to program, but each file should include the following:

- CDBG application, City Agreement, procurement information, bids and other contracts; budget, expenditure and payment information including supporting documentation;
- Characteristics and location of clients served;
- Program status, progress reports, audits, monitoring reports and correspondence.

Financial records are an integral part of the required computer accounting system. The required grants accounting records for Subrecipients are listed and discussed below.

- The computer bookkeeping/accounting system should have a general ledger type printout showing the assets, liabilities, income and expenses. The system should provide a separate report for income and expenses by fund or grant. Bank reconciliations must be performed monthly and balanced with the cash account in the general ledger. Further explanation of these required reports are as follows:
 - General Ledger, or Category Report (Quicken type software), - The general ledger shall include separate accounts for all assets, liabilities, income, and expense categories, as well as an account for the cash/fund balance.
 - Cash Disbursements - A computer printout of the grant expenses by category or account code must be submitted with the reimbursement request.
 - Payroll Reports – The largest component of direct cost associated with most awards received by nonprofit organizations is labor. Personnel activity reports or equivalent documentation must meet certain standards. Reports must reflect an after the fact determination of the actual activity of each employee. Reports must be signed by the individual employee, and by a responsible supervisory official having first-hand knowledge of the activities performed by the employees. Further, the distribution of activity represents a reasonable estimate of the actual work performed by the employee during periods covered by the award. Subrecipients are required to maintain payroll reports detailing gross salaries, all withholding and employer payments - Medicare, Social Security, SIIS or Workman's Compensation Insurance and health insurance. Non-profits are exempt from federal unemployment tax; however, they are liable for state unemployment reports.
 - Hours worked on the grant must be indicated on the report and proper documentation, i.e. time cards and time to project logs are required. Employees must keep track of time spent working on CDBG related activities during the work day. CDBG funds may only be used to reimburse eligible activities.
 - Property Register - To adhere to requirements outlined in the Revisions to 24 CFR Part 570 a listing of all property and/or equipment purchased with Federal grant funds in the amount of \$500 or more must be maintained. Although the CFR amount is \$5,000, the City of Columbia amount is \$500, and the most restrictive requirement must be followed.

The Community Development Department requires that all federally funded equipment purchases must be recorded on an Inventory/Property Control Form (**Exhibit E**), and submitted to CDD upon request. All use and proposed dispositions of grant-funded property is governed by the provisions under 2 CFR Part 200.

G. Record Retention Period

All CDBG files must be maintained for a minimum of *five* years after the final financial status report has been submitted for the grant.

H. Access to Records

HUD and the Comptroller General of the United States, or their authorized representatives, have the right to access Subrecipient agency program records. All CDBG grantees are required to provide citizens with reasonable access to records regarding the current funded programs and past, consistent with applicable State and local laws regarding privacy and confidentiality.

Information may be provided utilizing aggregate statistics. All clients may be lumped into categories, but no personal information may be released. *For example, a report may state: 150 clients served this month, 60 Caucasian, 60 African American, 15 Native Americans, 15 Asian. Of those clients, 25 were female head of household, 30 were Veterans, 100 were very low income, and 50 were moderate income.*

I. Allowable Costs

The standards for determining the reasonableness, allowability, and allocability of costs incurred as part of CDBG-financed activities are found in 2 CFR Part 200 for non-profits Subrecipients.

According to basic guidelines contained within the OMB Circulars, a cost is allowable under the CDBG program if:

- *The expenditure is necessary, reasonable and directly related to the grant.*
- This standard applies equally to such items as salaries and administrative services contracts, as well as to real property and equipment purchases or leases, travel, and other administrative expenditures. In determining the reasonableness of a given cost, consideration shall be given
- The expenditure has been authorized by the grantee (the city in this case), generally through approval of the budget for the activity and is not prohibited under Federal, state or local laws or regulations. CDBG is a reimbursement grant, meaning that agencies spend the funds and then ask to be reimbursed by the city. It is very important that if there are any questions as to eligibility of an expense that agencies contact their assigned Program Compliance Specialist. If the expense is not allowed, the agency will have to pay for it from another funding source.
- The cost must be allocable to the CDBG program. A cost is allocable to a particular cost objective (e.g. grant, program or activity) in proportion to the relative benefits received by that objective. This means that:
 - If an office is utilized by two programs during the same hours, the costs of the office should be allocated between the two programs equally.
 - The same expense cannot be claimed against more than one grant.
 - In addition, a cost originally allocable to a particular federal grant program cannot be shifted to another federal grant program in order to overcome funding deficiencies, to avoid restrictions imposed by grant or by law, or for other reasons.

J. Source Documentation

The general standard is that all accounting records must be supported by source documentation. This is necessary to show that the costs charged against CDBG funds were incurred during the effective period of the Subrecipient's agreement with the grantee, were actually paid out, were expended on allowable items, and had been approved by the responsible officials in the Subrecipient organization.

The source documentation must explain the basis of the costs incurred, as well as showing the actual dates and amount of expenditures.

For example: Payroll source documentation should include employment letters and all authorizations for rates of pay, benefits, and employee withholdings. Such documentation might include union agreements or minutes from board of directors' meetings where salary schedules and benefit packages are established, copies of written personnel policies, W-4 forms, etc. For staff time charged to the CDBG program activity, time and attendance records should be available. If an employee's time is split between CDBG and another funding source, there must be time distribution records supporting the allocation of charges among the sources. Canceled checks from the employees, payroll service provider, etc., or evidence of direct deposits will document the actual outlay of funds.

Rental or lease agreements, and bills from the respective companies must support space and utilities costs. Both types of expenses will be supported by canceled checks. If the cost is split between CDBG and other sources, there must be a reasonable method in place to allocate the charges equitably among the sources.

Supplies should be supported by purchase orders, or requisition forms initiated by an authorized representative of the Subrecipient, an invoice from the vendor, (which has been signed off by the Subrecipient to indicate the goods have been received) and the canceled check to the vendor demonstrating payment was made.

All source documentation does not have to be located in the CDBG project files, but it must be readily available for review by the grantee, HUD or other authorized representatives at all times. Please be aware that by accepting CDBG funds your organization records as a whole are open for review. Develop and maintain a central filing system. This will ensure that audits and monitoring visits go smoothly, and documentation is readily accessible.

In the simplest terms, financial transactions involve writing checks, and receiving reimbursement for eligible activities. Every grant related financial transaction must be recorded immediately into the accounting system.

Source documents, such as invoices or time cards, should provide all details of each transaction or activity. The information contained in the source documents is necessary for accounting purposes, and is recorded in the computer accounting/accounts payable system. The source documents must be readily accessible during monitoring visits.

A variety of source documents and records are needed to properly account for grant transactions. These documents include but are not limited to the following:

Invoices – All Subrecipients are required to retain original invoices or sales receipts for all purchases. All invoices must be marked "PAID" with the check number, and date paid included. A stamp is recommended for this.

If any original document for an expense cannot be located during a monitoring visit, the amount may be deducted from the next reimbursement request, or may be required to be repaid.

Payroll Records – All Subrecipients will maintain concise documentation for both the time worked and tasks undertaken. The employee and his/her immediate supervisor must sign employee time cards.

Service Contracts – All grant funded service contracts (accounting, leases, janitorial, etc.) must be a written agreement between the Subrecipient and the firm/individual.

The City of Columbia, Community Development Department must have copies of all service contracts that are to be reimbursed with City CDBG grant funds. The City has developed a standard subcontract form for your use, attached as Exhibit G.

K. Budget Controls

All Subrecipients are required to submit a proposed program budget when making an application for funding. Once the application process has been completed, an up to date and accurate program budget must be created and submitted to the Community Development Department for approval and inclusion in the Subrecipient Agreement.

Budgets are tools of the financial management system used for two main management functions: decision making (planning) and monitoring and controlling. A budget is a plan of action expressed in financial terms. In the course of planning, an organization defines its purpose, mission, goals, objectives, strategies and activities. Through the budget process, decision-makers look at the financial implications of their plan: how much will a program cost and what are the anticipated revenues.

Budgets are also tools for monitoring and controlling ongoing organization activities. Once a plan has been developed, the organization needs information to see whether it is keeping to its plan. If the organization has gone "off track", various responses can be considered. Since the budget describes the plan in terms of dollars, it provides a basis for monitoring progress.

Since budgets are planning documents, effective budgets are those that accurately anticipate and project the interplay between program and fiscal activity. An effective budget serves as a guideline, which reflects the best estimate by an organization's decision-makers of the anticipated income and the costs of operating various program activities. In summary, an organization needs to prepare annual budgets because budgets assist organizations to:

Define goals for a given period of time

- Monitor progress throughout that period of time

- Point out significant variances between the financial goals and how resources are actually being used
- Point out problems when they arise, so that corrective action can be taken on a timely manner
- Predict and monitor cash flow, and
- Illustrate need to funding sources

Subrecipients must have procedures in place to monitor obligations and expenditures against their approved budget(s) for CDBG funded activities. Depending on the language of the Subrecipient agreement, the grantee may be under no obligation to reimburse a Subrecipient for expenditures which exceed approved budget line items or the overall budget for CDBG assisted activities. Therefore, the Subrecipient needs to have an ongoing system to compare actual receipts, encumbrances, and expenditures with the CDBG budget in order to ascertain in a timely fashion whether it will be necessary to initiate a formal budget revision. In addition, since the budget reflects the Subrecipient's best estimate of the resources necessary to accomplish the CDBG project scope of services, any pattern of line item overruns should prompt a careful re-assessment of whether the available resources will still be sufficient to achieve the agreed-upon objectives.

In order to compare and control expenditures against approved budgets a Subrecipient must:

- Maintain in its accounting records the amounts budgeted for eligible activities;
- Include unexpended/unobligated balances for budgeted categories, as well as obligations and expenditures; and,
- Periodically compare actual obligations and expenditures to date against planned obligations and expenditures, and against projected accomplishments for such outlays.

These comparisons should be made on an ongoing basis. In addition, it is critical that Subrecipients maintain a close watch over the progress achieved for the amount of funds expended.

L. Financial Reporting

Financial reports prepared by a Subrecipient must be accurate, timely, current, and represent a complete disclosure of the financial activity and status in each federal grant program under which assistance is received.

A Subrecipient must have the capacity to provide at a minimum the following information for each CDBG activity:

- Amount budgeted;
- Reimbursements received to date;
- Program income and other miscellaneous receipts in the current period and to date;
- Actual expenditures/disbursements in the current period and cumulatively to date, for both program income and regular CDBG grant funds;
- Current encumbrances/obligations in addition to disbursements;
- Unpaid requests for payment previously submitted.

In addition, a Subrecipient's accounting and record-keeping system must be able to support the data in (a) its drawdown requests, (b) its other financial and progress reports, and (c) any submissions necessary for the grantee's annual report to HUD.

The City of Columbia ensures that Subrecipient activities are carried out in compliance with all applicable program requirements and that the program goals are on track with the objectives outlined in the Subrecipient contract. Accurate record keeping is crucial to the successful management of CDBG funded programs. Insufficient documentation can lead to delayed payments or monitoring findings, both of which can be difficult to resolve if records are missing, inadequate or inaccurate.

While the agency may not qualify for an A-133 Audit, it is extremely helpful if financial statements contain a grants reporting summary page, which lists all the grants and amounts the agency received during the fiscal year by Catalog of Federal Domestic Assistance (CFDA) number and the amount. Providing this information with the year end audit or financial statement, allows the city to determine if the agency conducted the proper type of audit based on the funds expended. The CFDA number for CDBG funds is 14.218. Use this website <http://www.cfda.gov/> to look up other CFDA numbers by grant name and type.

M. General Responsibilities

Recipients of federal funds are required to comply with all applicable federal requirements. Subrecipients must safeguard these resources by segregating duties. The Subrecipient's Director must be responsible for reviewing and approving all transactions involving the grant funds, before the Subrecipient's financial officer or accountant processes them.

The Subrecipient's responsibilities include:

- Ensure that all expenditures involving the use of federal funds are eligible under the federal and local requirements of the grant
- Approval of purchase orders and contracts to be reimbursed through HUD grant funds
- Receipt and approval of invoices
- Review and approval of requests for payments involving HUD grant funds are coded properly
- Compliance with all HUD regulations, the City Grant Agreement and Subrecipient Grant Administration Manual
- Implementation of an internal control system

N. Finance Officer Responsibilities

The finance officer or accountant is responsible for maintaining a computer accounting/bookkeeping system. The finance officer's or accountant's responsibilities include, but are not limited to:

- Control of accounting documents for processing by the Subrecipient
- Preparation of financial reports based on accounting records
- Preparation of requests for reimbursement, subject to review by the agency's Director

- Execution and oversight of all financial procedures designed to avoid or eliminate waste, fraud, or abuse of grant funds. Should the City determine that the Subrecipient's accountant is not maintaining proper financial records, or processing accurate information, the City has the right to request the Subrecipient to remove that individual from grants responsibility.

O. Audits

The agreement with the City is subject to an OMB A-133 Audit pursuant to the Single Audit Act and is also subject to other requirements of 2 CFR Part 200. *Has a recent audit been conducted and what were the results?*

An audit is both a financial and program audit. It encompasses auditing of expenses as well as the program. In other words, ensure that grant funds were expended for allowable costs and accomplished the program objectives according to the Scope of Services.

The United States General Accounting Office (GAO) states that Subrecipient agencies must ensure that federal program resources are applied "efficiently", economically and effectively to accomplish the program objectives. The financial and performance audits are designed to assure that Subrecipient agencies are accountable to HUD, the City and the public. In particular:

1. *Financial audits* are designed to provide an independent opinion on the agency's financial statements, internal central structures, cash flow, and compliance with specific financial systems and procedural requirements.
2. *Performance audits* provide an independent point of view on the extent to which the agency has efficiently and effectively carried out its operations, and achieved the intended program results and benefit.

The primary goal of the audit is to determine whether an agency has adequate systems in place to assure that:

1. Goals and objectives are met;
2. Resources are safe-guarded;
3. Laws and regulations are followed; and
4. Reliable data is obtained, maintained and accurately disclosed.

Subrecipients are responsible to ensure their auditors conduct the proper type of audit. Not all Certified Public Accountants (CPA's) are qualified to perform an A-133 audit.

Please note: The Office of Management and Budget requires that grant recipients who expend \$750,000 or more in federal funds in one fiscal year, must conduct an A-133 audit.

Please note: On July 1, 2005, the City implemented the following audit policy: Any agency that expends between \$200,000 - \$749,999 in federal funds will be required to have a CPA Audited Financial Statement. The funds expended may be from one or multiple federal sources. If allowable by program regulations, the City may only pay for the portion of the audit, which represents the percentage of City federal funds in the program budget.

Subrecipients who do not qualify for an A-133 or Audited Financial Statement must submit a Certified Annual Financial Statement (CFA). This is the lowest audit criteria and will only be accepted from those non-profits who can document that they did not qualify for an A-133 or a CPA audited financial statement. The Treasurer and the Board President must sign a statement certifying the CFA. The statement should read as follows: ***We, the undersigned, as Executive Director and Treasurer of (Name of Agency), hereby certify that, to the best of our understanding and knowledge, the attached Financial Statements fairly and accurately represent the financial condition and operations of this organization.***

P. Audit Due Date

Audits have different due dates depending on the type the agency qualifies to conduct. Certified Annual Financial Statements are due three (3) months after the end of the fiscal year; CPA conducted audits are due six (6) months after the end of the fiscal year, and A-133 Audits are due nine (9) months after the end of the fiscal year.

In order for the agency to understand the financial requirements, the following section covers financial statements. The Subrecipient is responsible for the work and reports created by their staff and/or accountant.

All Subrecipients who fall under the requirements of OMB A-133 Auditing rules must submit a full and complete copy of such audits to the Community Development Department. It is the responsibility of the Subrecipient to ensure that audits are completed in a proper and timely manner. Failure to submit copies of the A-133 Audit will render the Subrecipient as non-compliant. This means that no funds may be drawn until the City of Columbia Community Development Department has received and reviewed the copy of the audit.

V. FISCAL MANAGEMENT

Reimbursement will only be provided for allowable costs as approved by the City of Columbia and must be directly related to the Grant. Reimbursements should be submitted on a monthly basis. Please use the ZoomGrants online program to submit your monthly reimbursement requests. When your requests are submitted they must include copies of receipts, check registers, payroll reports, and paid invoices.

The City of Columbia will only reimburse the Subrecipient for eligible expenditures actually incurred.

(Please see Section VI-Monthly Reimbursements for further information.)

A. GENERAL BUDGET INFORMATION

There are typically three cost categories within a general budget:

1. Personnel Costs

1. Personnel - Costs associated with the positions identified on the Staffing Plan. Costs should reflect the actual amount of time each position spends on the program.

*Federal funds cannot be used to pay for 100% of an Executive Director's salary. Please ensure that when receiving multiple funding sources this threshold is not exceeded. IRS employee rules must be applied before determining an employee's status or non-status. People who work for the agency are employees, people who provide training, consulting or are officers of the non-profit are not and cannot be employees of the agency. This is considered a conflict of interest. Employees must have all the pertinent federal deductions and taxes paid.

2. Fringe Benefits - Eligible payroll-related costs of health insurance, retirement fund contributions, FICA, Worker's Compensation, and other payments made on the behalf of the employee.

NOTE: Non-profit agencies are exempt from paying federal unemployment tax, although State unemployment tax applies. Non-profit agencies will not be reimbursed for any federal unemployment taxes you pay.

2. General Non-Personnel Costs

1. Supplies - Consumable commodities that have a useful life of one year or less and which are valued under \$500, except for computer equipment, which must be inventoried and accounted for separately.
2. Direct Client Services - Work Cards, Sheriff Cards, rent, bus tokens, food, utilities, child care, and other program costs paid on behalf of clients.
3. Communication - Costs of telephone, telephone installation, leasing of phone equipment, and postage.
4. Printing - Cost of copying and printing, whether done in-house or through an outside printer; supplies such as paper or fluids for copy machine owned or leased for program use.
5. Utilities - Costs associated with gas, electricity, water, and trash removal.
- 5) Rent - Rental charges for real property; office space for program.
- 6) Travel (local) - Costs for mileage reimbursement and conference expenses within Clark County. Mileage reimbursement includes only travel by staff or volunteers for conducting the business of the Subrecipient. No personal mileage will be reimbursed. Mileage from home to work is also not an allowable expense.
6. Travel (other) - All travel and conference expenses outside of Clark County to employees and volunteers for actual mileage. Out of state travel requires prior City approval.
7. Insurance - Insurance-related costs required for the operation of the program.
8. Miscellaneous - For eligible expenses not noted above. Should not exceed 1% of CDBG grant.
9. Food/snacks - Eligible only for clients, and must be an integral part of the program; for example, afterschool snacks for children in a Safekey program or lunch for preschool. Please contact your assigned program compliance specialist for guidance.
10. **No costs which may be considered as entertainment in nature will be reimbursed with CDBG funds.** Food (except when eligible under circumstances described in #9 [above]), Awards ceremonies, banquets, holiday events, trophies, plaques, amusement park field trips, etc. are not an allowable

expense. Please contact the assigned program compliance specialist for further guidance on this issue prior to planning or expending CDBG funds.

3. Specific Non-Personnel Costs

1. Equipment Rental - Costs for the rental of equipment, which is essential for the operation of the program.
2. Equipment Purchase - Purchase of equipment essential for the operation of the program in those instances where it is more cost effective to purchase equipment rather than rent it. Includes any item with a useful life of more than one year and a cost greater than \$500. Purchase of equipment requires prior City approval.
3. Contracted Services - Professional and technical services not performed by staff.
4. Audit Fees – City CDBG funds may pay for audits, but only to the extent of the total City federal funds in the budget. For example, if the audit cost is \$5,000, and only 20% of the program’s overall budget is from the City, only \$1,000, or 20% of the bill will be allowed. Bookkeeping fees or payroll services are eligible expenses.

B. BUDGET REVISIONS

Modifications to approved budgets line items are allowable but must be directly related to changes in program services and activities and may not increase the budget total.

To implement a budget modification, the Subrecipient must submit a Budget Amendment Form-**Exhibit H**, which identifies the reasons for the adjustment. The request must be specific as to which line items are to be increased and which are to be reduced and must be specifically approved by the City in writing as a change to the written agreement or contract between the City and the Subrecipient.

The City of Columbia Community Development Administrator has the authority to grant or deny requests for budget revisions. The City will issue a written decision within seven (7) business days of receiving the request.

C. RECORDS

Organizations receiving CDBG funds must keep the following fiscal records:

1. Bookkeeping Journals and Ledgers

Provide accurate accounting for cash receipts, cash disbursements and cash balances. All cash, revenues and expenses must be reconciled to the general ledger. Back-up documentation for journal entries must be kept and properly filed. Documentation must include: invoices, bills and other receipts, deposit slips, bank statements, check stubs, check books, canceled checks, purchase orders, petty cash records and other verification as applicable.

2. Payroll Records

Payroll records will show actual gross earnings; net payroll and payroll deductions for each individual staff member by pay period. If an employee is paid by more than one fund or program, the payroll journal will need to reflect the distribution of time and money against each fund or program.

Back-up documentation must include:

- a. *Canceled/Canceled paychecks*;
- b. Tax records;
- c. Worker's compensation records;
- d. Individual time sheets.

3. Petty Cash Record

A petty cash fund may be set up to take care of small item payments. All such payments must be supported by petty cash vouchers and receipts and must be an eligible expense. The size of the fund is left to the discretion of the Subrecipient. Backup source documentation for expenditures must be provided when submitting for reimbursement.

4. Time Records

Time records should be kept indicating actual time worked, including types of time, such as sick leave, vacation leave, compensatory time, etc. Time sheets should be kept by the day and signed by the employee and supervisor.

Agencies using volunteer hours for in-kind match must keep signed time records by the day indicating actual time donated.

Time sheets showing labor distribution and a time to project log, which documents time spent on the project/program, must be kept for all grant funded employees. Copies of these must be submitted with reimbursement requests in addition to cancelled checks, payroll reports and general ledgers.

D. EXPENDITURES

All expenditures associated with an approved activity or program must comply with the following criteria:

1. Limitation of Expenditures

- a. The Subrecipient shall not expend funds provided under the contract prior to the commencement of the contract or subsequent to the suspension or termination of the contract.
- b. Expenditures shall be made in conformance with the approved budget and shall meet the criteria established for allowable costs.
- c. Expenditures shall be in direct support of the program that is the subject of the contract. The Subrecipient shall notify the City in writing of any expenditure for items jointly used for any other program(s) and the expenditures shall be apportioned according to the percentage of direct use in the program.

2. Eligible Costs

To be eligible for payment, costs must be in compliance with 2 CFR Part 200 and with the principles set forth below:

- a. Be necessary and reasonable for the proper and efficient performance of the contract and in accordance with the approved budget. The City shall have final authority to determine in good faith whether expenditure is "necessary and reasonable".
- b. Conform to the limitations within the agreement, this manual and to any governing statutes, regulations and ordinances.
- c. Be fully documented and determined in accordance with approved accounting procedures.
- d. Not be included as a cost or used to meet cost sharing or matching requirements of any other funding source in either the current or a prior period.
- e. Be the net amount of all applicable credits such as purchase discounts, rebates, sales or other income or refunds.
- f. Document all costs by maintaining complete and accurate records of all financial transactions, including but not limited to: contracts, invoices, timecards, cash receipts, vouchers, canceled checks, bank statements and/or other official documentation evidencing in proper detail the nature and propriety of all charges.
- g. Submit to the City, within fifteen (15) working days of the end of the preceding month, requests for reimbursement together with a summary of expenses on a form approved by the City supporting documentation.
- h. Submit to the City at such times and in such forms as the City may require, statements, records, reports, data, and information pertaining to matters covered by the agreement or contract.

3. Ineligible Costs:

- a. Food: Completely ineligible except when it is an integral part of the program such as afterschool snacks for children in Safekey or lunch for a preschool. Please contact your assigned Program Compliance Specialist for guidance.
- b. Bad debts: any losses arising from uncollectable accounts and other claims, and related costs.
- c. Contingencies: contributions to a contingency reserve or any similar provisions for unforeseen events.
- d. Contributions and donations.
- e. Entertainment: costs of amusements, social activities and incidental costs such as meals, beverages, lodging and gratuities relating to entertainment, or any political or lobbying activity.
- f. Fines and penalties: costs resulting from violations of or failure to comply with Federal, State, and local laws and regulations.
- g. Interest and other financial costs: interest on borrowings (however represented), bond discounts, cost of financing and refinancing operations, and legal and professional fees paid in connection therewith.
- h. Membership expenses: costs of membership in any organization, which devotes a

substantial part of its activities to influencing legislation.

- i. Non-competitive subcontracts: payments under a subcontract not obtained under competitive bidding procedure, unless the City specifically waives the requirement for such a procedure.

4. Close out Documentation:

The Subrecipient shall maintain a system of internal control in accordance with generally accepted accounting practices. Internal control consists of a plan or procedure to safeguard assets, check the adequacy and reliability of accounting data, promote operating efficiency, and assures compliance with appropriate laws and regulations. On or before 90 calendar days after termination of the agreement, the project coordinator should submit to the City an annual inventory update and a closeout financial report. All property, documents, data, studies, reports and records purchased or prepared by the Subrecipient under contract should be disposed of according to contract.

In the event the program terminates, copies of all records relating to the program or activity that are the subject of the contract shall be furnished to the City. Financial statements submitted by the Subrecipient to the City shall be accurate and correct in all respects. Should inaccurate reports be submitted to the City, the City may elect to have the Subrecipient secure the services of a licensed accounting firm. Cost of such accounting services are to be borne by the Subrecipient

E. Program Income

Organizations providing services funded through a City of Columbia CDBG grant may charge fees to clients to reduce the costs of service delivery. Such fees, or any other earnings generated through the use of CDBG funds, are considered to be program income (PI). PI includes, but is not limited to, fees charged for services, proceeds from the sale of tangible personal or real property, usage or rental fees, and patent or copyright royalties.

Program income shall be recorded separately and returned to the City for disposition. Upon approval by the City, income from the Project may be retained by Subrecipient provided that written notification is given to the Community Development Director and that the income is to be used for the exclusive benefit of the Program. Such income will be subject to guidelines for use of such income in accordance with HUD regulations. All PI must be reported. A total amount under \$100 may be reported quarterly rather than in the month in which it is collected.

Donations are defined as free will offerings to an organization not related to receiving a service or benefit. Donations are not PI and do not have to be reported. PI does not reduce the size of the organization's CDBG grant if the PI is spent on eligible items. However, any PI not spent will result in a reduction in the amount of funds reimbursed. Housing development agencies which use CDBG funds for administration only, do not report funds received from the construction of affordable housing units as PI.

VI. MONTHLY REIMBURSEMENTS

City Community Development staff will review each request for reimbursement submitted by the Subrecipient. Questionable or ineligible expenses will be identified and the Subrecipient will be requested to submit clarifications, corrections, or additional information.

If any source document for an expense cannot be provided upon immediate request, the amount will be deducted from the reimbursement.

A. General Programs and Public Services

Requests for reimbursement for eligible expenses should be submitted on a monthly basis. Reimbursement requests received by the 15th working day of the month will, in most cases, be paid no later than the end of the month.

Please review the request documentation and amounts prior to submission, the City cannot reimburse for items or services paid for prior to the beginning of the program year, or after the end of the program year.

B. Spending Requirements

CDBG funds must be spent in a timely manner. Unless an alternative spending plan has been approved in writing by Community Development, funds must be expended in the following manner:

- 10% by September 30th
- 50% by December 31st
- 75% by March 31st
- **All funds must be expended by June 30th of the program year**, with Request for Reimbursement and Monthly Activity Reports submitted by July 15th for the fiscal year the funds are awarded.
- **Unspent funds cannot be carried forward and are forfeited.**

C. ZoomGrants Online Reporting System

Monthly reimbursement requests must be submitted prior to the 15th of each month via the ZoomGrants online reporting system. Backup documentation must be uploaded at the time of reimbursement request submittal and can be uploaded into the ZoomGrants system and attached to the Monthly Reimbursement Request online.

From the time documents are received and are complete, it will take approximately fifteen (15) to thirty (30) days to process the expense report if there are no issues or concerns with the payment request.

D. Backup Documentation Required for Reimbursement Requests

CDBG funds are paid to agencies on a reimbursement basis. Therefore, it is extremely important to verify the eligibility of an expense prior to expending your funds. Accuracy of submittals is important as errors slow down the process. Copies of one of the following must be included: both the front and back of cancelled checks, the front of the cancelled check with the check register to document it was paid, or copies from the internet banking account, in addition to a paid invoice. When at all possible, do not use cash, as this does not provide a proper audit trail.

When submitting a large payment request, please highlight the portions requested to be paid by the city in addition to utilizing either an excel spreadsheet or adding machine tape.

All source documentation must be uploaded to the ZoomGrants online reporting system along with the submittal of the Monthly Reimbursement Request (no later than the 15th of each month). More detailed instructions on the ZoomGrants system will be provided by your assigned Program Compliance Specialist during your Startup Technical Assistance Session.

E. Documentation

In order for the city to reimburse the agency, documentation must be submitted to show who, what, when, and how the invoice was paid. Only copies of paid invoices which must be marked paid will be accepted. A quote or order form will not be accepted. In addition to the paid invoice, proof of payment must be submitted. For invoices paid by credit card, submit a copy of the statement showing the invoice was paid.

Please highlight the amount paid on the receipt, and the reimbursable portion. Keep in mind when charging a percentage, the percentage of participants who are low-income City of Columbia residents must be documented. To do this, provide a copy of the client roster, with their addresses and highlight the city residents. This permits verification of the percentage.

Copies must be legible. Please keep all originals in your files. Receipts cannot be dated prior to the beginning of the program year July 1st or after the end of the program year June 30th. If requesting payroll reimbursement, copies of time sheets must be included. The time sheets must include documentation of time spent with city CDBG eligible participants. Many agencies use tracking codes or work authorization codes, please use whatever method works best. Please highlight the code assigned to CDBG or the hours worked on the time sheet.

F. Mileage and Travel

Per the IRS allowances found at IRS.gov, the CDBG program will reimburse those reasonable mileage and travel costs that are necessary to carry out the services identified in the Subrecipient's Agreement. Mileage and travel expenses not necessary for the program, or of a personal nature, are not eligible for reimbursement. Volunteers authorized by the program to be reimbursed for mileage relating to services for the program must provide proof of

automobile insurance, copies of which must be kept at the Subrecipient's office.

1. **Mileage:** The Subrecipient shall submit written mileage records identifying the driver of the vehicle, the number of miles driven on each day, and the purpose of the trip. The Subrecipient shall certify the accuracy of the information reported. Travel to and from work is not an eligible expense for mileage reimbursement.
2. **Travel:** Reimbursable costs include conferences, lodging, food, and other non-mileage costs. Community Development policy requires that all travel costs be kept to a minimum. Supporting documentation must be provided with all requests for travel reimbursement.

a) **Local Travel:** Defined as travel within the City of Columbia Metropolitan Statistical Area (MSA).

b) **Non-Local Travel:** Non-local travel is travel to a location outside of the City of Columbia MSA, but within South Carolina. No prior approval is required for these trips.

c) **Out-of-State Travel:** Approval for out-of-state travel must be requested in writing from the City's Community Development Manager 10 working days prior to the trip. The Community Development Manager will review the request and provide a response within five (5) working days.

G. Telephone Expenses

- A. **Reimbursable Expenses:** The CDBG program will reimburse only those reasonable costs for local and non-local telephone calls necessary to carry out the services identified in the Subrecipient's Agreement with the City. Actual costs of phone calls and the monthly cost of supporting the phone system are eligible for reimbursement. Such expenses include equipment rental or lease and monthly service charges. All out-of-state calls must be documented with a description of the purpose of the call and its relationship to program activities. The City will not reimburse personal calls.
- B. **Exceptions:** Personal phone calls are not reimbursable. In addition, calls made for the purpose of raising funds are not eligible for reimbursement.
- C. **Pro-rating of Expenses:** If the program receives funding from several sources, only those telephone expenses solely related to the that portion of the activity which is funded out of the Subrecipient's CDBG grant are reimbursable. All such costs must be specifically identified to the City's satisfaction.
- D. Additionally, if the amount of the Subrecipient's CDBG grant is less than the program total budget, phone costs are reimbursable at a percentage equal to the level of CDBG funding as compared to total program funding.

VII. PROCUREMENT, AND CONTRACTING - PROCEDURES AND REQUIREMENTS

A. Equipment Procurement

1. **Equipment v. Supplies**

Equipment is defined as tangible property costing more than \$500 and having a useful life of more than one year. The purchase of equipment is generally ineligible, because equipment can be rented at a lesser cost for a short period of time.

Items which cost less than \$500 and which have a useful life of less than one year are considered to be supplies and are to be purchased under the General Non-Personnel Costs (Supplies) cost category, except for computer equipment, which must be inventoried and accounted for.

2. **Limitation on Purchase of Equipment**

Under HUD regulations, the purchase of equipment, fixtures, or furnishings that are not an integral structural fixture is ineligible except when necessary for use by the City or a Subrecipient in the administration of the overall City CDBG grant or as part of the administration of a public service program. The City does not allow for purchase of vehicles with CDBG funds.

3. **Equipment Purchase Approval Requirements**

All purchases of equipment require prior City approval. The agency must submit and receive approval of **Exhibit D** – CDBG Activity Requests to Purchase Equipment.

Requests to purchase equipment are to be submitted to the City 45 days prior to the purchase order date. The request is to include the cost of the item, where it will be purchased, a detailed explanation of why it should be bought rather than leased or rented, and where the funds for the purchase will come from. If City CDBG funds will only be paying a portion of the purchase, list other funding sources and the respective amounts. The City will review the request and issue a decision within 10 working days. Rationale for a negative decision will be included in the response.

4. **Reversion to City**

Under HUD regulations, the City has the option to obtain the equipment from the program when funding stops for the program. The review of the type of equipment to be purchased will include mention of its possible usefulness to the City. The City may also permit the Subrecipient to retain the equipment at the time the funding ends. All other equipment purchased pursuant to this agreement and not consumed shall become property of the City, unless a waiver has been granted.

B. Inventory Instructions

Any equipment purchased must be reported yearly (at activity closeout) using **Exhibit E** – CDBG Inventory Property Control Form.

1. Agency - Name of Agency receiving grant.
2. Description - A brief description of the item of property.
3. Manufacturer's Serial Number - Provide the manufacturer's serial number for all items.
4. Acquisition Date - Date of Purchase.
5. Percentage of Federal Participation - Portion paid by CDBG funds.
6. Cost - Supply the actual purchase price.
7. Disposal Date - Date sold or disposed of.

C. Procurement Definitions

Price and Cost Analysis: A price or cost analysis must be made in connection with every procurement action. Price analysis involves comparing the bottom line price quoted, with typical prices paid for the same or similar materials or services (does not apply to sole source contracts). Cost analysis means you obtain the best price with the best service.

Sole Source: Procurement by noncompetitive process is solicitation from only one source. This process is rare and is acceptable only after solicitation of a number of sources is determined inadequate. Extensive documentation and justification is required to establish the audit trail.

The agency may make the determination that competition is not feasible if one of the following circumstances exists:

- The item is unique and available only from a single source.
- There is a public urgency or emergency that exists that will not permit a delay resulting from a competitive solicitation.

Please use Exhibit F to document your purchasing methods.

Equipment and or Services purchasing methods are as follows:

0 - \$ 500	Direct reimbursement with an invoice copy.
\$500 - \$ 10,000	Two or more verbal quotes; written quotes if labor or detailed product or service specifications.
\$10,000 - \$ 25,000	Two written quotes obtained by Subrecipient agency or the City's Purchasing staff. May use "Request For Quotes", advertise, and/or use pre-bid conference.

Over \$ 25,000

Formal bid process with pre-bid conferences and formal bid openings.

D. Subcontracts

Should a Subrecipient find it necessary to subcontract in order to meet its obligations under its agreement with the City, it must enter into a written agreement with those individuals or organizations providing services. A standard subcontract form has been developed by the City and is available for your review, **Exhibit G**

1. Provisions Required in Subcontracts

- a. Name, address, phone number and social security number of subcontractor.
- b. A termination clause requiring twenty days' notice by which either party may terminate the agreement.
- c. A City un-involvement clause releasing the City from any liability for any breach of the subcontract by either party.
- d. A scope of services.
- e. The total dollar amount of the subcontract.
- f. A termination date no later than the end of the current CDBG program year.
- g. A clause requiring the contractor to comply with stated "Conditions of Federal Funding".
- h. An independent contractor clause stating that the subcontractor is an independent contractor or employee of the Subrecipient. Subcontractor is not an agent or employee of the City, and as such waives any claims to any rights or benefits which accrue to employees of the City.
- i. Signature of person authorized by Subrecipient's Board of Directors to execute agreements.
- j. Signature of person authorized by subcontractor to execute agreements.

2. Review of Subcontracts by City

All Subrecipients receiving CDBG funds from the City must submit all subcontracts valued at more than \$500 to the City for review and approval prior to execution.

All subcontracts requiring review and approval by the City must be submitted at least 10 business days prior to an effective date. The CDD will respond to the request for approval within 7 working days. Subcontracts must be approved prior to execution by any of the parties.

3. Required Subcontract Documentation

The Subrecipient shall maintain the following documentation in its files:

- a. Summary of bids and proposals received.
- b. Justification for any non-competitive procurement of contract services and reasons for the selection of the subcontractor (any non-competitive procurement procedures must be approved by the City in writing prior to execution).
- c. Justification for the selection of other than the lowest bidder in a competitive procurement (any selection of other than the lowest bidder must be approved by the City in writing prior to execution).

- d. Section 3 compliance documentation, if required.
- e. Documentation of Women and Minority Owned Business.

4. Types of Subcontracts Covered Under This Section

- a. Documentation of Women and Minority Owned Business.
- b. Bookkeepers and auditors
- c. Contractual personnel services (those not on the Subrecipient's payroll)
- d. Office equipment rental
- e. Office space rental
- f. Rental of vehicle (van, bus, etc.) to be used on a regular basis for carrying clients of the Subrecipient.

E. 24 CFR PART 84.42 CODES OF CONDUCT

The recipient shall maintain written standards of conduct governing the performance of its employees engaged in the award and administration of contracts. No employee, officer, or agent shall participate in the selection, award, or administration of a contract supported by Federal Funds if a real or apparent conflict of interest would be involved. Such a conflict would arise when the employee, officer, or agent, any immediate family, his or her partner, or an organization which employs or is about to employ any of the parties indicated herein, has a financial or other interest in the firm selected for an award. The officers, employees, and agents of the recipient shall neither solicit nor accept gratuities, favors, or anything of monetary value from contractors, or parties to sub-agreements. However, recipients may set standards for situations in which the financial interest is not substantial or the gift is an unsolicited item of nominal value. The standards of conduct shall provide for disciplinary actions to be applied for violations of such standards by officers, employees, or agents of the recipient.

F. Conflict of Interest

The general rule is that no employee, board member, officer, agent, consultant, Subrecipients which are receiving funds under a CDBG assisted program who have responsibilities with respect to the CDBG activities or who participate in decision making process or have access to inside information with regard to the activities can obtain a personal or financial interest or benefit from a CDBG assisted activity during their tenure or for one year thereafter (Federal Regulation 24 CFR 570.611).

Agencies should maintain a written code of standards of conduct governing the purchase of materials, product, supplies, services and awarding/administering Subrecipient contracts. Personnel involved in the procurement process must be trained to recognize situations that create real, or the appearance of a conflict of interest. The agency personnel should:

1. Be familiar with the agency's code of ethics and potential conflict of interest issues.
2. Not take gifts or gratuities from persons or organizations associated with the procurement process.
3. Assure the proposal evaluators or member of their immediate families do not have financial interest in the companies.

VIII. MONITORING AND DOCUMENTATION

A. Monitoring Reviews

The City of Columbia ensures that Subrecipients comply with all regulations and requirements governing their administrative, financial and programmatic operations. This includes assuring that performance goals are achieved within the scheduled time frame, budget and when necessary taking appropriate actions when performance problems arise. Monitoring is not a "one-time-event".

A risk analysis may be conducted annually on each subrecipient to determine what level of monitoring will be conducted. High risk subrecipients will be monitored on site in the same fiscal year in which the risk analysis was conducted. High risk is defined by a total score across all areas from 80 -100 points. All others will be monitored on-site the following fiscal year. This allows for monitoring of all subrecipients bi-annually.

During the fiscal year, remote or desk monitoring will take place for all subrecipients. Remote or desk monitoring will be conducted by evaluating various in-house materials such as: applications for funding, written agreements, reimbursement requests, progress reports, drawdown reports, previous monitoring determinations and audits. This information is a part of the risk-based monitoring system that has been set-up. This will allow the City to better track program progress and provide technical assistance as needed.

The five basic steps to the formal monitoring visit include:

- a. Notification Call or Letter -Explains the purpose of the visit, confirms date, scope of monitoring and outlines the information that will be needed to conduct the review.
- b. Entrance Conference - Introduces monitoring visit purpose, scope and schedule.
- c. Documentation and Data Gathering - The City will review and collect data and document conversations held with staff, which will serve as the basis for conclusions drawn from the visit. This includes reviewing client files, financial records, and agency procedures.
- d. Exit Conference - At the end of the visit the City will meet again with the key agency representatives to present preliminary results, provide an opportunity for the agency to correct misconceptions and report any corrective actions already in the works.
- e. Follow-Up Letter - The City will forward a formal written notification of the results of the monitoring visit pointing out problem areas and recognizing successes. The agency will be required to respond in writing to any problems or concerns noted.

B. Monitoring Process

1. Purpose

City Community Development staff will conduct an on-going monitoring process in order to review the programmatic and financial aspects of the Subrecipient's activities. Community Development staff will review monthly reports submitted by the Subrecipient for

compliance with federal regulations regarding the use of federal funds and the implementation of the program.

The monitoring process is oriented towards resolving problems, offering technical assistance, and promoting timely implementation of programs. To this end Community Development staff may require corrective actions of the Subrecipient. Following are examples of significant problems, which will trigger corrective action by the Subrecipient:

- a. Services are not documented;
- b. Goals are not being met;
- c. Program files not in order;
- d. Complaints by clients;
- e. Required reports not being submitted in a timely manner,
- f. Funding not spent correctly.

2. Monthly Programmatic & Financial Monitoring

- a. Subrecipients will submit a monthly activity report via the ZoomGrants online reporting system, detailing the implementation and administration of the activity. The monthly activity report shall include the following:
 - 1) Progress in meeting stated goals and objectives;
 - 2) Changes in staff or Board of Directors;
 - 3) Problems encountered and steps taken to resolve them;
 - 4) Other general information as appropriate;
 - 5) An overview of progress made during that reporting period
- b. Subrecipients will submit a monthly reimbursement requests via the ZoomGrants online reporting system, detailing the funds that were expended in the previous month. Subrecipients will upload the backup documentation via the ZoomGrants system and submit both the reimbursement request and the backup documentation together online.
- c. This report is due in the City Community Development office by the fifteenth (15th) working day of the month following the month when services were provided.

3. On-Site Visits

Based on monitoring results and other criteria, City Community Development staff may hold discussions with Subrecipients whose performance does not appear to be sufficient to meet the goals and achievements as outlined in the agreement. An on-site visit may occur to discuss the service activity shortfall. On-site monitoring visits may also be conducted in order to ascertain that eligible clients for whom the program was intended are being served and that in the event of an audit; the required client information is being maintained.

C. Client Documentation by Subrecipient

Each Subrecipient is required to maintain documentation on clients benefiting from activities and programs funded through the City's CDBG program. As a condition of receiving the HUD grant, the City, and in turn the Subrecipient, must certify that low- and moderate-income persons are being served. HUD also requires information on the race and ethnic background of the clients, how many are female heads of households, their residency in the City, and how many are very- low income. City Community Development staff and HUD must

also have access to the names and addresses of the clients. Any information regarding applicants for services funded through federal monies shall be held in strict confidence.

1. Required Documentation

All Subrecipients must obtain and maintain at their local offices, the following information on each client served:

- a. Client name and address
- a. Gender
- b. Ethnicity/race
- c. Head of household status
- d. Income

Subrecipients should use the “Client Certification of Household Composition and Income” form attached hereto as **Exhibit A** to collect this information from assisted households in addition to verifying client income.

2. Exceptions to Maintaining Required Income Documentation

Income documentation is not required for the following client types:

- a. Clients of a battered women's shelter.
- b. Seniors 62 years of age and older.
- c. Persons with recognized disabilities.

All other documentation is required.

3. File Organization and Maintenance

Subrecipients should structure their project/program files and other records to comply with the general requirements as discussed in this manual. In setting up a program or client file, the following may be helpful:

Program files should contain:

- a. Original executed copy of the agreement with the city
- b. Any amendments to the application and agreement
- c. Notice of award (letter from Community Development Department)
- d. Correspondence relating to the grant award
- e. Copies of Requests for Reimbursement
- f. Budget Amendment (if applicable)
- g. Any other information pertinent to the CDBG Grant
- h. Program measurable goals and expectations

Client files should contain:

- a. An application for assistance, if applicable
- b. **Exhibit A** - Client Certification of Household Composition and Income
- c. Documentation as to services provided to the client and any outcomes of service, for example, if a client is referred to another agency for services, a follow up contact is required to document the services the client received
- d. Copies of any program requirements

- e. Pre and post program evaluations, if applicable

IX. PROJECT CLOSE OUT

A. Programmatic Close-out

Programmatic close-out will consist of, but will not be limited to, the following:

1. Review and verification of annual client statistical and narrative report due 15 days after the end of the program year - July 15th. Your June report with year-to-date client totals, along with a program narrative will suffice.
2. Review of Subrecipient record keeping system, including, but not limited to:
 - a) Activity documentation
 - b) Personnel files
 - c) Inventory control files
3. Evaluation of activity and program accomplishment

B. Financial Closeout

Financial close-out will consist of, but will not be limited to the following:

1. Review and verification of information submitted in the final drawdown request.
2. Review of Subrecipient record keeping system:
 - a) Accounting records and ledgers
 - b) Source documentation (invoices, time cards, canceled checks, etc.)
 - c) Budget documentation (modifications, etc.)
 - d) Equipment purchases
3. Evaluation of activity financial accomplishment

C. Equipment Disposition

All equipment with a cost of \$500 or more purchased with HUD grant funds shall revert to the City at the close of the activity. If a Subrecipient wishes to continue utilizing the equipment, and is **not** funded the following year, a letter must be submitted to the CDD requesting approval and describing how, through the continued use of the equipment, the grant objectives will be met. The City reserves the right to refuse any request.

Equipment shall be depreciated on a 5-year, straight-line basis, as is the accounting standard used for the City in its financial management. A Subrecipient is required to maintain records of the HUD funded equipment purchases and report to the City during the 5-year depreciation period. If the property is disposed of prior to the 5-year depreciation period, the City shall provide the Subrecipient with disposition instructions upon request. If the property is disposed of for cash during this period it constitutes Program Income, which must be reported.

When equipment has been fully depreciated, and the equipment is sold, the Subrecipient may retain such funds provided that the City is notified in writing and the funds are used for the exclusive benefit of the previously HUD funded program.

D. Record Retention

To adhere to HUD's legal requirement as contained in 24 CFR Part 570 Subpart J, HUD funded records must be retained for **five** years after the completion of the program, in order to allow access for audit and public examination. If audit findings are not resolved, the records shall be retained beyond the five years. The retention period starts when the annual or final expenditure report has been submitted or, for non-expendable property, from the date of final disposition.

E. City Internal Audit Reviews

The City reserves the right to have its Internal Audit Division review all Subrecipient records and transactions. Audit findings resulting in monetary repayment to the City will be collected by the City from the Subrecipient's non-federal funded resources. City Internal Auditors review CDD'S Subrecipient monitoring/account reviews to begin their single audit reviews. Reports containing findings are then sent to both the Community Development and the Subrecipient for compliance. Progress on the compliance is also monitored. Failure to rectify findings within the given time frame may result in suspension, termination of grant agreement, and/or disbarment from future grant funding.

F. External Audit Reviews

All Subrecipients must submit an A-133 Audit, Audited Financials, or an Annual Certified Financial

Statement. The City reserves the right to request a Subrecipient to hire a Certified Public Accountant to review and report on the agency financial and programmatic records.

The City has implemented the following audit policy: Any agency that expends between \$200,000 – \$749,999 in federal funds during the calendar year will be required to have a CPA Audited Financial Statement. The funds expended may be from one or multiple federal sources. If allowable by program regulations, the City may only pay for the portion of the audit, which represents the percentage of City federal funds in the program budget.

There are three types of audits:

A-133: Organizations that expend \$750,000 or more in one year in federal awards shall have a single or program specific audit **(A-133)** conducted for that year.

Audited Financials:** This means that a CPA has audited your records in accordance with generally accepted accounting practices and procedures, and provided a hard copy.

Annual Certified Financial Statement: This is the lowest threshold criteria and will only be accepted from those non-profits who can document that they did not qualify for an A-133 or regular audit. Annual Certified Financial Statements (ACFS) must be certified (signed and

dated) by the Treasurer and the Board President. They must also have the following certification statement: We, the undersigned, as Executive Director and Treasurer of (Name of Agency), hereby certify that, to the best of our understanding and knowledge, the attached Financial Statements fairly and accurately represent the financial condition and operations of this organization.

IRS Form 990 filing – All agencies with revenue of \$50,000 or more must complete and submit this annual tax report. Contact the IRS for more information.

X. APPENDICIES

APPENDIX I – 2 CFR Part 200, Code of Federal Regulations, “Super circular”

APPENDIX II – 24 CFR Part 570, CDBG Regulations

XI. EXHIBITS

EXHIBIT A – Client Certification of Household Composition and Income

EXHIBIT B – Conditions of Federal Funding

EXHIBIT C – Insurance Requirements

EXHIBIT D – Activity Request to Purchase Equipment

EXHIBIT E – Inventory Property Control Form

EXHIBIT F – Procurement Form

EXHIBIT G – Standard Agreement for Provisions of Subcontracted Services

EXHIBIT H – Request for Budget Revision or Project Extension

EXHIBIT I – Davis Bacon Forms